A **PLAYBOY ENTERPRISES INTERNATIONAL INC**

v.

ZILLION CHOICE SDN BHD & ANOR

B HIGH COURT MALAYA, KUALA LUMPUR
AZAHAR MOHAMED J
[SUIT NO: (IP) D5-22-996-2007]
24 SEPTEMBER 2010

C ***AGENCY:*** *Authority of agent - Ostensible authority - No representation given by principal suggesting apparent authority granted to individual - No situation created by principal conferring any authority on the individual - No evidence to establish third party's reasonable belief that individual conferred with apparent authority by principal - Individual not* D *an agent having apparent or ostensible authority*

TRADE MARKS: *Registered trade mark - Action for infringement - Goods distributed by licensee not approved for trade mark use by licensor - Goods not subject to licensor's stringent quality control approval process* E *- No implied or express waiver of process - Unapproved goods of licensee bearing licensor's trade mark - Licensee's goods counterfeit - Infringement of licensor's trade mark established against licensee*

The plaintiff owned and managed the 'Playboy' and 'Rabbit Head Device' trademarks (the PB marks). The plaintiff entered into 4 F license agreements with the first defendant granting it the license to manufacture and sell women's clothing, accessories and costume jewelry bearing the PB marks. The license granted was only limited to the territories specified in the respective agreements. The plaintiff claimed that in breach of the license agreements, the G plaintiff had sold unapproved goods bearing the PB marks in Japan, a territory not covered by any one of the license agreements. The plaintiff thus issued a letter of termination dated 14 June 2007 to the first defendant terminating the license agreements. The plaintiff claimed that notwithstanding the H termination, the plaintiff continued to operate a retail store until July 2007 and was even selling unapproved goods such as shoes bearing the PB marks. The plaintiff thus instituted the present action claiming that the first defendant had breached the license agreements and that the defendants were liable for infringing the I PB marks. The first defendant however denied selling or

distributing products bearing the PB marks in Japan. The first defendant further claimed that it did not infringe the plaintiff's PB marks as the unapproved products produced and distributed by the first defendant in Malaysia were in fact sold with the consent or license given by the plaintiff's representative in Asia – one Simon Wong ('SW') – at the material time, who had the 'apparent authority' to approve the said product on behalf of the plaintiff. This, claimed the defendants, led to a variation and a waiver of the relevant provisions of the license agreements. The defendants counterclaimed *inter alia* for a declaration that the plaintiff's termination of the license agreements was invalid and that they had not infringed any of the plaintiff's marks.

Held (allowing both the action and the counterclaim in part):

(1) The plaintiff had failed to prove on a balance of probabilities that the first defendant had breached the license agreements by selling the unapproved apparel bearing the plaintiff's trade marks in Japan. The unilateral termination of the license agreements by the plaintiff *vide* letter dated 14 June 2007 was invalid and unlawful. (para 13-18)

(2) The plaintiff had not approved any shoe design submitted by the defendant. The plaintiff had very stringent quality control approval processes stipulated in its license agreements. Quality control is key to a licensing arrangement which a trade mark proprietor is obliged to enforce. The plaintiff's contractual right to approve products bearing its trade marks in advance of sales and distribution by the first defendant was a quality control measure. Quality control was a material term of any trade mark license. In the instant case, the first defendant had no regard whatsoever for complying with the quality control provisions entrenched in para. 2 of the license agreements. (paras 22-28)

(3) In the instant case, the applicable law of contract was the law of contract of the State of Illinois, USA as stipulated in para. 13 of the license agreements. Such choice of law clause would not prevent the Court from having the jurisdiction and ability to adjudicate on the license agreements. If it was necessary for a Malaysian Court to form an opinion upon a point of foreign law, the Court may apply s. 45 of the Evidence Act

1950. In the instant case, the foreign expert witnesses for the parties could indeed be considered experts under s. 45 of the Evidence Act 1950. Both had practiced that foreign law in the course of their profession for a substantial and significant amount of time and they had held office pertaining to or dealing with such law. (paras 29 & 30)

(4) In the instant case, PW3 the plaintiff's expert opined that an implied waiver of the license agreements was not permissible due to para. 18 of the agreements and that any modification of the agreements by practice was inconsistent with Illinois law. PW3 was of the opinion that Illinois law specifically states that where the actions of the parties to the contract are inconsistent with a clear and unambiguous term of the contract, the terms of the contract would prevail. The court would agree with and prefer the opinion of PW3. His opinion was also consistent with Malaysian principle that courts are to determine and enforce the intent of the parties according to the plain meaning of the express terms of the contract. The parties had agreed to the clear and unambiguous terms of para. 18 which *inter alia* provided that all waivers and modifications would require an express agreement in writing. Therefore, the defendants' contention that there was an implied waiver by conduct and practice was unacceptable. The contention that the defendants did not infringe the plaintiff's PB marks ought to be rejected. Even if a waiver was permissible, the defendant had failed to establish that. (paras 31-37)

(5) The law on apparent authority applicable in Illinois is no different from the law applicable in Malaysia. In order to show apparent authority, the first defendant had to establish that the plaintiff had created a situation where the first defendant reasonably believed SW had the authority to approve product designs. The first defendant failed to establish that the plaintiff had ever made any representation or created a situation which conferred any authority on SW to give approval of designs. The first defendant had also not established that its belief that SW had apparent authority to approve product designs was reasonable. (paras 47-52)

(6) There is no doubt that the first defendant had used marks which were identical to the PB marks. The shoes in question were never approved by the plaintiff. Therefore it inevitably followed that the first defendant had infringed the plaintiff's PB marks. The first defendant was also liable for trademark infringement of all the goods it continued to sell after the termination. (para 53)

(7) The second defendant had obtained its shoes from the first defendant. Since the shoes were never approved by the plaintiff, it followed that the shoes sold by the second defendant bearing the PB marks were counterfeits. The case of infringement was also made out against the second defendant. (para 55)

Case(s) referred to:

Alliedbank (Malaysia) Bhd v. Yau Jiok Hua [1998] 2 CLJ 33 HC ***(refd)***

American Express International Banking Corporation v. Tan Loon Swan [1992] 1 CLJ 9; [1992] 1 CLJ (Rep) 1 SC ***(refd)***

Central Illinois Public Service Co v. Atlas Minerals, Inc 965 F Supp 1162 (CD) 111 1997 ***(refd)***

Chew Hock San & Ors v. Connaught Housing Development Sdn Bhd & Another Case [1985] 1 CLJ 533; [1985] CLJ (Rep) 64 FC ***(refd)***

Freeman & Lockyer v. Buckhurst Park Properties (Mangal) Ltd [1964] 2 QB 480 ***(refd)***

MMC Power Sdn Bhd & Anor v. Abdul Fattah Mogawan & Anor [2001] 1 CLJ 207 ***(refd)***

United Bank of Kuwait v. Hammoud [1988] 1 WLR 1051 ***(refd)***

Weil, Freiburg & Thomas, PC v. Sara Lee Corp, 577 NE 2d 1344, 1350 (Ill. App. Ct. 1991) ***(refd)***

Legislation referred to:

Evidence Act 1950, s. 45(1)

Trade Marks Act 1976, s. 48(1)

Other source(s) referred to:

Neil J Wilkof, *Trade Mark Licensing*, paras 6.02, 10-08 pp 101, 225

For the plaintiff - Jasdev Singh (Sukumar Karuppiah & Avtaran Singh with him); M/s Jasdev Chambers

For the defendants - Ng Kim Poh (Me Ee Tee Gin & Ee Chai Hak with him); M/s EE & Assoc

Reported by Andrew Christopher Simon

JUDGMENT

Azahar Mohamed J:

[1] Playboy Enterprises International, Inc (the plaintiff) is a corporation incorporated under the laws of the State of Delaware, United States of America. The plaintiff owns and manages the 'Playboy' and 'Rabbit Head Device' trademarks (the PB Trade Marks). The plaintiff's PB Trade Marks are registered in Malaysia. The Rabbit Head Device is set out below:

[2] The plaintiff and Zillion Choice Sdn Bhd (the 1st defendant) had entered into four License Agreements as follows:

No	Date of License Agreement	Scope of License Agreement	Defined in the Statement of Claim as
1	1 January 2005	Relating to women's accessories (including but not limited to handbags)	"Women's Accessories License dated 1 January 2005"
2	1 January 2005	Relating to costume jewelry	"Costume Jewelry License dated 1 January 2005"
3	1 May 2005	Relating to the (in part exclusive, in part non-exclusive) to design, manufacture, advertise, promote, sell, and distribute women's apparel	"Product License dated 1 May 2005"
4	1 October 2005	Relating to one free-standing non-mass retail store	"Retail Store License dated 1 October 2005"

(Hereinafter referred to collectively as "the License Agreements").

[3] The License Agreements governed the relationship between the plaintiff and the 1st defendant. The territories covered by the License Agreements at the time when they were signed were as follows:

No	Agreement	Territory	Relevant Page at CBD (AB)
1	Women's Accessories Agreement	Malaysia, Singapore and the Philippines	031
2	Costume Jewelry Agreement Indonesia and the Philippines	Malaysia, Singapore,	061
3	Product License dated 1 May 2005 [hereinafter referred to as "Women's Apparel Agreement"]	Malaysia & Singapore	093
4	Retail Store Agreement	Kuala Lumpur, Malaysia	128

[4] Pursuant to the said License Agreements, the 1st defendant was granted a license to use the plaintiff's PB Trade Marks in connection with the 1st defendant's manufacture and sale, by itself or through wholesalers, to department and specialty stores located in countries such as Malaysia and Singapore ("the permitted territory"), of various items of women's apparel such as t-shirts, hats and shoes, and women's accessories and costume jewellery; as well as to operate a stand-alone boutique selling products bearing the plaintiff's PB Trade Marks.

[5] The principal activities of the 1st defendant are stated as "wholesaler in all kinds of garments". While that of Group Thirty-Six Sdn Bhd (the 2nd defendant) are stated as "trading in all kinds of garments and general trading". The 1st and 2nd defendants are separate entities but are closely related and have several common features such as common shareholders and directors. The 2nd defendant is not a party to the License Agreements.

[6] The plaintiff had issued and the 1st defendant had received a letter of termination (the letter) dated 14 June 2007 terminating the License Agreements. According to the plaintiff, it had terminated the 1st defendant as its licensee in Malaysia by the letter after the plaintiff had obtained evidence that the 1st defendant had sold or distributed, or caused to be sold or distributed goods bearing the PB Trade Marks in Japan, which is not an authorized territory specified in the License Agreements; and the goods sold in Japan were unapproved products bearing the PB Trade Marks. However the 1st defendant had through its previous solicitors sent a letter dated 28 June 2007 to the plaintiff disputing the contents of the letter.

[7] It is the plaintiff's case that the 1st defendant had committed infringement of the plaintiff's rights and breached its agreements with the plaintiff by selling in unlicensed territories and by selling counterfeit products. Further, the letter dated 14 June 2007 imposed, *inter alia*, the following obligations on the 1st defendants as stipulated in the License Agreements:

(a) that the 1st defendant was required to immediately cease and desist from all use of the Plaintiff's Properties, which included, but not limited to the removal of all Playboy-branded signage and fixtures from the Playboy Store so that it is no longer a Playboy Store;

(b) The 1st defendant was required to immediately cease sales of products bearing the PB Trade Marks.

[8] Following the termination, the plaintiff had discovered that the 1st defendant continued to operate the Playboy Retail Store up to the end of July 2007. It is the contention of the plaintiff that such continued sale after termination constituted infringement of the PB Trade Marks. In addition, the 1st defendant was also found to be selling shoes in Malaysia, which were never approved by the plaintiff. According to the plaintiff, the sale of goods bearing the PB Trade Marks as well as the unapproved shoes which were supplied by the 1st defendant, were additional instances of breach of the License Agreements by the 1st defendant. The plaintiff did not know this fact when the letter was issued and therefore the unapproved shoes did not form the basis of the termination of the License Agreements.

[9] In the premises, the plaintiff's claims that the 1st defendant had breached the License Agreements; and that the defendants are liable for infringing the Plaintiff's PB Trade Marks. The reliefs sought by the plaintiff include, *inter alia*, injunctive relief restraining the defendants from continuing their alleged acts of trade mark infringement; payment of royalties, termination fees, damages for breach of contract, etc, an order for delivery up or destruction of all alleged infringing goods of the defendants; an order for full discovery of all relevant documents pertaining to the alleged infringing acts; an inquiry as to damages or, at the plaintiff's option, an account of profits, and payment of all sums found due upon the taking of such inquiry or account including interests thereon; and costs.

[10] The defendants' defences can be summarized as follows. The 1st defendant did not breach the said License Agreements as it did not sell or distribute or cause to be sold or distribute products bearing the Plaintiff's PB Trade Marks outside the permitted territory specified in the said License Agreements. The 1st defendant did not infringe the Plaintiff's PB Trade Marks as the alleged unapproved products produced and distributed by the 1st defendant in Malaysia were in fact sold with the consent or license given by the plaintiff's representative in Asia at the material time, one Simon Wong who had the apparent authority to approve the said product on behalf of the plaintiff which led to a variation and a waiver of the relevant provisions of the said License Agreements. Furthermore, the 2nd defendant did not infringe the Plaintiff's PB Trade Marks as the alleged unapproved products bearing the Plaintiff's PB Trade Marks sold by the 2nd defendant were bought from the 1st defendant and which were in fact sold with the plaintiff's consent or license given by Simon Wong by virtue of the said apparent authority. It is the contention of the defendants that the purported termination of the said License Agreements was invalid and unlawful; and had interfered with and ended the contractual relationships between the 1st defendant and the 2nd defendant in respect of the sale of licensed products bearing the Plaintiff's PB Trade Marks. The reliefs sought by the defendants by way of counterclaim are, *inter alia*, a declaration that the plaintiff's purported termination of the said License Agreements is invalid; a declaration that the defendants did not infringe any of the plaintiff's registered trade

marks; and damages suffered by the defendants arising from the plaintiff's invalid and unlawful termination of the said License Agreements be assessed and paid by the plaintiff to the defendants.

[11] Having stated the rival contentions of the parties, in my view there are three core questions to be decided in this action:

(a) Whether the 1st defendant had breached the said License Agreements by:

(i) Having sold and/or distributed products bearing the Plaintiff's PB Trade Mark outside the permitted territory; and

(ii) Having produced and distributed products outside the permitted territory whose styles or designs were not expressly approved by the plaintiff in accordance with the said License Agreements;

(b) Whether 1st defendant had infringed the Plaintiff's PB Trade Marks in Malaysia by:

(i) Having sold allegedly unapproved products bearing the plaintiff's registered trade marks at the 1st defendant's outlet at One Utama Shopping Centre during the currency of the said License Agreements; and

(ii) Having continued to trade, offer for sale and sell products bearing the Plaintiff's PB Trade Marks, including the alleged unapproved products, after the purported termination of the said License Agreements;

(c) Whether the 2nd defendant had infringed the Plaintiff's PB Trade Mark in Malaysia by having sold the alleged unapproved products at its respective outlets at One Utama, The Curve, Mid Valley Megamall, Sungei Wang Plaza, Queensbay Mall and Gurney Plaza.

[12] I have read and reviewed in detail the testimonies of all the witnesses, the documentary exhibits and the submissions of all the parties. After much thought and deliberation, this is my judgment in respect of the three core issues, which I shall deal with each of them in turn.

1st Core Issue: Whether The 1st Defendant Had Breached The License Agreements

[13] In support of its allegation that the 1st defendant breached the said License Agreements, the plaintiff is relying on the 1st defendant allegedly sold unapproved apparel bearing the Plaintiff's PB Trade Marks in Japan; the 1st defendant allegedly authorized a factory in China to produce 6,620 pairs of unapproved shoes destined for Hong Kong; and the 1st defendant allegedly authorized a company to sell and distribute 300 cartons of sportswear destined for Japan. But this matter must be considered with regard to the admissibility of exhibits tendered in court during the course of the trial.

[14] The plaintiff is relying on 19 pieces of apparel allegedly purchased in Japan and which allegedly originated from the 1st defendant, namely ID37(1) to ID37(9) and ID38(1) to ID38(10). However, this poses difficulties. Now, it is trite law that an ID is purely for identification only and should be excluded as part of trial record. They have no evidential value. Further, all oral testimony given in relation to ID37(1) to ID37(9) and ID38(1) to ID38(10) should also be disregarded (see: *Alliedbank (Malaysia) Bhd v. Yau Jiok Hua* [1998] 2 CLJ 33). Furthermore, no evidence is led to prove that ID37(1) to ID37(9) and ID38(1) to ID38(10) were in fact purchased or obtained in Japan. The plaintiff's allegation that ID37(1) to ID37(9) and ID38(1) to ID38(10) were bought or obtained in Japan is based purely on hearsay evidence that is inadmissible, namely the alleged information given by its licensee in Japan. The alleged licensee in Japan was neither identified nor called as a witness. The plaintiff has failed to prove that these 19 pieces of apparel were in actual fact obtained or purchased in Japan. There is another difficulty in the contention advanced by the plaintiff. There is no evidence that the 1st defendant sold ID37(1) to ID37(9) and ID38(1) to ID38(10) in or to Japan. The plaintiff did not adduce any evidence to prove that ID37(1) to ID37(9) and ID38(1) to ID38(10) were being sold in or to Japan by the 1st defendant. Even if ID37(1) to ID37(9) and ID38(1) to ID38(10) originated from the 1st defendant, there is every possibility that they might have been bought by someone in Malaysia and thereafter resold them in Japan without the knowledge of the 1st defendant. Hence, it is my findings that the plaintiff has failed to prove that, on a

balance of probabilities, the 1st defendant breached the said License Agreements by selling unapproved apparel bearing the Plaintiff's PB Trade Marks in Japan.

[15] The plaintiff also alleged that the 1st defendant had authorized a factory in China to produce 6,620 pairs of unapproved shoes destined for Hong Kong which were allegedly seized by the Chinese Customs in July 2006. The plaintiff is relying on ID4 ie, alleged photos of shoes allegedly seized by the Chinese Customs; ID5 ie, alleged documents relating to the alleged seizure; and ID6 ie, alleged notice of action taken by the Chinese Customs. As stated earlier, an ID is purely for identification only and should be excluded as part of trial record and that all oral testimony given in relation to ID4, ID5 and ID6 should also be disregarded by this court. In any event, ID4, ID5 and ID6, do not in any way prove that the 1st defendant had authorized the factory in China to produce the said shoes for export to Hong Kong. In my view there is no basis to say that the 1st defendant had authorized the factory in China to produce 6,620 pairs of the alleged unapproved shoes destined for Hong Kong.

[16] Next, the plaintiff alleged that the 1st defendant authorized a company to sell and distribute 300 cartons of unapproved sportswear destined for Japan which were seized by the Chinese Customs in December 2006. The plaintiff is relying on ID7, ie, alleged documents relating to the alleged seizure; ID8, ie, alleged notice of action taken by the Chinese Customs; and exh. P35, ie, alleged letter dated 5 January 2007 from the plaintiff to the Chinese Customs. Even if this court were to admit ID7 and ID8, that they do not in any way prove that the 1st defendant had authorized a company to sell and distribute the alleged unapproved sportswear destined for Japan. There is no basis to say that that the 1st defendant had authorized Tropical Mission (M) Sdn Bhd to manufacture and/or sell the alleged 300 cartons of sportswear destined for Japan.

[17] These are the reasons why it is my findings that the plaintiff has failed to prove that the 1st defendant had breached the said License Agreements. Hence, there is merit in the arguments of learned counsel for the defendants to the effect that the unilateral termination of the License Agreements by the plaintiff *vide* letter dated 14 June 2007 was invalid and unlawful. And I hereby declare so.

[18] I now turn to consider the 2nd core issue.

2nd Core Issue: Whether The 1st Defendant Had Infringed The Plaintiff's PB Trade Marks

[19] In support of its claim that the 1st defendant had infringed the Plaintiff's Trade Mark in Malaysia the plaintiff is relying on the following. The 1st defendant had sold unapproved shoes bearing the Plaintiff's PB Trade Marks at the 1st defendant's outlet at One Utama Shopping Centre during the duration of the said License Agreements; and that the 1st defendant continued to trade, offer for sale and sell unapproved shoes bearing the Plaintiff's PB Trade Marks, after the termination of the said License Agreement.

[20] Now, there can be no doubt that if the 1st defendant's use of the Plaintiff's Trade Marks on any products is contrary to any of the said four License Agreements, such use would amount to trade mark infringement.

[21] It is the contention of the defendants that all the alleged unapproved products were in fact approved by the plaintiff under a changed approval process (ie, not in accordance with the said License Agreements) and/or through Simon Wong. It is said that the plaintiff knew all along prior to the purported termination that the defendants were selling the alleged unapproved shoes. It was argued by learned counsel for the defendants that the plaintiff was well aware of this and in fact by its conduct had waived strict compliance with the approval requirements stated in the said License Agreements. Learned counsel then argued that in some cases, the 1st defendant was given approval by Simon Wong. He argued that although the plaintiff is now contending that Simon Wong did not have the authority to approve any design proposal from its licensees, his conduct clearly showed otherwise; and that the 1st defendant was under the clear impression that he had authority from the plaintiff to approve design proposal of the plaintiff's licensees. Learned counsel for the defendants argued that the approval system prescribed under para. 2 of the said License Agreements was waived and varied by the conduct of the parties. It is the contention of the defendants that a waiver of the approval system prescribed under para. 2 of said License Agreements is permissible whether by way of writing or impliedly by conduct of the parties.

[22] Here, one point should be noted. The 1st defendant has admitted in its amended defence and counter claim that the plaintiff did not approve a single shoe designed by the 1st defendant during the duration of the agreement. Therefore, there can be no dispute that none of the shoes design submitted by the 1st defendant was ever approved by the plaintiff.

[23] Now, in addressing the issues raised by the 1st defendant, it is important to keep in mind the approval process provided in para. 2 of the License Agreement. Michele Helen McCoy (PW1) in her evidence has explained in detail the approval process and its importance. According to her, the quality control approval process is entrenched in para. 2 of the License Agreement. In so far as it is relevant to the issue under discussion, her evidence can be summarized as follows. The plaintiff licenses its trademarks, other images, and artwork it owns for use in connection with the worldwide manufacture, sale, and distribution of products. It works with licensees to develop, market and distribute high quality merchandise branded with the PB Marks that includes men's and women's fashion apparel, men's underwear, women's lingerie, accessories, etc. Given that the plaintiff has such an extensive licensing business trade, it is crucial that it has a clear system set in place for managing its licensees. This is achieved by having in place rules for licensees in written contracts with its licensees such as the License Agreements in the present case. These agreements clearly set out what the licensees are authorized to do, how they can do it and what kind of approval is required for various actions. It is crucial that the plaintiff ensures that it protects the goodwill associated with its valuable trademarks and controls the quality of the licensed products that bear the PB Marks. In line with its strict quality controls, the plaintiff has a strict and required product design approval process in place to ensure it has control over the quality of the products so that the brand is not damaged. This is consistent with a trade mark owner's obligation to control quality. That is to say the approval process is set so that the plaintiff can ensure that the designs submitted by licensees adhere to the plaintiff's philosophy of general design and it can keep abreast of the activities of its licensees. There are three stages of approval on the plaintiff online approval website. There is the initial Concept Approval stage, the Pre-Production Approval stage and the Production Approval stage. All stages must be complied

with to complete the full approval process. The stringent approval procedure also ensures that there are no designs, which may encroach into the rights of any 3rd parties not related to the plaintiff. All approvals come ultimately from plaintiff even if intermediaries such as consultants are involved along the way. Such intermediaries are in place to help guide the licensees, but intermediaries do not act *in lieu* of plaintiff or as and do not make final decisions. That is in summary the evidence of PW1 on this issue.

[24] I should like to add that it cannot be disputed that quality control is key to a licensing arrangement which a trade mark proprietor is obliged to enforce. In my view, the plaintiff's contractual right to approve products using its trade marks in advance of sales and distribution by the 1st defendant is a quality control measure and quality control is a material term of any trade mark license. The thing is a trade mark's basic function is to signify the quality of the product bearing the trade mark. That function requires quality control. Failing to engage in quality control destroys the trade mark and is considered fraud to the public. Thus, enforcement of quality control provisions in plaintiff's agreements is integral to retain the value of, and preserve the goodwill of the Plaintiff's PB Trade Mark. Which is why to my mind, the plaintiff had included quality control provisions in para. 2 of the License Agreements.

[25] The key principles governing a licensing arrangement is succinctly described as follows in "*Trade Mark Licensing*" by Neil J. Wilkof and Daniel Burkitt ("*Trade Mark Licensing* by Neil J Wilkof") at para 10-08; p. 225.

> The basic right of the licensor with respect to the trade mark is proprietary, namely, to permit the use of the trade mark by the licensee in accordance with the terms and conditions specified in the license. Any use of the trade mark by the licensee, other than as authorized by the licensor, will be an infringement of the licensor's proprietary rights in the trade mark.
>
> Generally speaking, the licensor's proprietary rights in the trade mark license can reasonably be said to be comprised of the following provisions:

A (a) The form, covered by the registration, in which the trade marks, may be used;

(b) The scope of the goods or services for which the license is granted;

B (c) The territory in which the trade marks may be affixed;

(d) The quality of the goods manufactured or the services provided;

(e) The duration of the license.

C **[26]** The obligation on quality control is also summarized as follows in *Trade Mark Licensing* by Neil J Wilkof at para 6.02 at p. 101.

Quality Control – The Classical Approach

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Trade mark licensing has been distinguished from other types of intellectual property licensing by the requirement for quality control over the licensee's use of the mark. It was the recognition that quality control is compatible with the source theory of trade marks that led to the legal recognition of trade mark licensing.

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As long as the licensed use of the trade mark is subject to quality control, the trade mark is deemed to function as the identifier of source, and the mark serves to distinguish its goods from those of others. This is accomplished by imputing the licensee's use of the trade mark to the licensor. When this occurs, there continues to be a connection in the course of trade between the proprietor of the mark and the goods.

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[27] Section 48(1) of the Trade Marks Act 1976 provides for quality control provision:

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1) Subject to the provisions of this section, where the registered proprietor of a trade mark grants, by lawful contract, a right to any person to use the trade mark for all or any of the goods or services in respect of which the trade mark is registered, that person may be entered on the Register as a registered user of the said trade mark whether with or without any conditions or restrictions, provided that it shall be a condition of any such registration that the registered proprietor shall retain and exercise control over the use of the trade mark and over the quality of the goods or services provided by the registered user in connection with that trade mark.

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[28] Coming back to the present case, PW1 had carefully and meticulously taken this court through the three approval stages during her testimony at trial. She maintained that it was enforced strictly when it was suggested by the defendants' counsel to her that the plaintiff was not serious in compliance. She had also disputed the suggestion that over the course of the dealings between plaintiff and the 1st defendant, the approval process was actually abandoned and it was varied or waived by way of conduct where once the 1st defendant submitted a design to the plaintiff for approval, the 1st defendant would then proceed with the production and sale of products, and thereafter submit the reports of the sales to the plaintiff. There is internal consistency in the evidence of PW1. Her evidence is consistent and fits in the rest of the evidence adduced by the plaintiff. To my mind, she is a trustworthy and credible witness. There is no valid reason for this court to reject her testimony. The plaintiff has never compromised its stringent approval process at all and rightly so. To do so would put itself at risk of losing its extremely valuable trademarks. That is why I cannot accept the testimony of Dato Ng Keng Fong (DW2), the director of the 1st defendant to the effect that the strict approval requirements were not followed by the plaintiff due to commercial expediency and necessity. I am more inclined to accept PW1's testimony rather than DW2. Based on the totality of the evidence before this court, it is my findings that the 1st defendant has no regard whatsoever for complying with the quality control provisions entrenched in para. 2 of the License Agreements.

[29] It is at this point, I shall deal with the issue of waiver and variation raised by the 1st defendant. It is common ground that the applicable law of contract in relation to the said License Agreements is that of the State of Illinois, USA. This is pursuant to para. 13 of these Agreements. It is settled law that such a choice of law clause does not prevent Malaysian Courts from having the jurisdiction and ability to adjudicate on the said four License Agreements. In *American Express International Banking Corporation v. Tan Loon Swan* [1992] 1 CLJ 9; [1992] 1 CLJ (Rep) 1 our then Supreme Court held if it is necessary for a court in this country to form an opinion upon a point of foreign law, s. 45 of the Evidence Act 1950 (the EA) can be applied. Section 45(1) of the EA provides that when the court has to form an opinion upon a point of foreign law, the opinions upon that point of persons person specially skilled in that foreign law are relevant facts; and such persons are known as experts.

[30] In this regard, the defendants called Philip L. O'Neill (DW1) to assist the court on understanding the law of contract of the State of Illinois. His professional qualification and experience included, among others, as follows. He is a business law counsellor and trial lawyer since 1977 and has been continuously engaged in the private practice of law there ever since. In 2000, he became a member of the Washington, D.C. law firm of Jacobson Holman PLLC, which specializes in trademarks, copyright, patent and unfair competition matters. On the other hand, the plaintiff called Scott T Schutte (PW3). He is a partner with the law firm of Howre, in the Chicago Illinois office. He has litigated numerous cases that involved Illinois contract law. Having reviewed the professional qualification and experience of PW3 and DW1, I am satisfied that both of them can be considered as experts within the meaning of s. 45 of the EA in the law of contract of the State of Illinois as they have practiced that foreign law in the course of their profession for a substantial and significant amount of time and they have held office pertaining to or dealing with such law.

[31] Their evidence bring into focus para. 18 of the License Agreement which provides:

> 18. **Entire Agreement.** This Agreement (with the Schedule and Exhibits A through E) represents the entire understanding of the parties hereto. None of the terms of this Agreement can be waived or modified except by an express agreement in writing signed by the parties hereto. There are no representations, promises, warranties, covenants or undertakings other than those contained in this Agreement. No custom or practice of the parties hereto at variance with the terms hereof shall constitute a waiver of Licensor's right to demand exact compliance with any of the terms herein at anytime. The failure of either party hereto to enforce, or the delay by either party hereto in enforcing, any or all of its rights under this Agreement shall not be deemed as constituting a waiver or a modification thereof, and either party hereto may, within the time provided by applicable law, commence appropriate proceedings to enforce any or all of such rights. Except as expressly provided in this Agreement, no individual or entity other than Licensee and Licensor shall be deemed to have acquired any rights by reason of anything contained in this Agreement.

[32] Now, DW1 is of the opinion that in spite of the provisions of para. 18, under Illinois contract law, a waiver of the approval system prescribed under para. 2 of the said License Agreements is permissible whether by way of writing or impliedly by conduct of the parties. Further, an implied waiver may arise from either of the two situations, namely an unexpressed intention to waive can be clearly inferred from the circumstances; or the conduct of one party has misled the other party into a reasonable belief that a waiver has occurred. DW1 has explained in his testimony as to why under Illinois contract law, a waiver of the approval system prescribed under para. 2 is permissible.

[33] This is in sharp contrast to the opinion of PW3. According to PW3, an implied waiver of the said four License Agreements is not permissible due to para. 18 and that any modification of the License Agreements by practice is inconsistent with Illinois law. Likewise, PW1 has also explained in some detail in his testimony as to why he came to that conclusion.

[34] After much deliberation and reviewing the two opinions, I am more inclined to agree with the opinion of PW1 rather than DW1 on this issue. My reasons now follow. Based on the case of *Central Illinois Public Service Co v. Atlas Minerals*, Inc 965 F. Supp. 1162 (CD).111 1997, PW3 is of the opinion that Illinois law specifically states that where the actions of the parties to the contract are inconsistent with a clear and unambiguous term of the contract, the terms of the contract prevail. I think this is a good opinion and is undoubtedly the correct view. Indeed, it is also an established principle in our jurisdiction that courts are to determine and enforce the intent of the parties according to the plain meaning of the express terms of the contract. In the present case, to my mind, the parties have agreed to the clear and unambiguous terms as encapsulated in para. 18 that: (a) all waivers and modifications require an express agreement in writing; that (b) no custom or practice at variance with the contractual terms constitutes a waiver of licensor's right to demand exact compliance with the written terms; and (c) any failure or delay in exercising such right shall not, itself, constitute a waiver or modification. That is why, I agree with the opinion of PW1 to the effect that any modification of the License Agreements by practice is inconsistent with Illinois law. I also agree with the opinion of PW1 that the Illinois Uniform Commercial Code ("UCC") provides

that a signed agreement which excludes modification or rescission except by express agreement in writing cannot be otherwise modified or rescinded. In my view, the opinion of PW3 that the UCC applies to the License Agreement fits with the cases decided by the US courts, which he has brought to the attention of this court.

[35] I have no difficulty to accept the principle that Illinois law would respect and enforce the clear language of para. 18 of the Agreements. In the present case, there was no agreement in writing signed by the plaintiff and the 1st defendant to waive or modify any of the terms of the License Agreements. For this reason, I conclude that any contention by the defendants that the plaintiff waived its right to enforce the quality control entrenched in para. 2 of the License Agreements on the ground of implied waiver by conduct and practice would not be supported by Illinois law and would be rejected.

[36] Therefore, on this ground alone, the contention of the defendants that they did not infringe the Plaintiff's PB Trade Marks must fail.

[37] Going beyond that, in any event, even if under Illinois contract law, a waiver of the approval system prescribed under the License Agreements is permissible as suggested by DW1, the 1st defendant has failed to prove that the plaintiff had waived its rights. In my view, the 1st defendant has submitted no credible evidence whatsoever that the plaintiff intentionally relinquished its rights to insist on strict compliance with the quality control provisions as explained by PW1. On the contrary, the plaintiff has submitted evidence that every time the 1st defendant logged on to the plaintiff online approval website, it was reminded of the requirement that strict compliance with the online approval process was required.

[38] In my view, the two sales reports relied on by the defendants do not amount to waiver. The reports do not match exactly that which was actually received by the plaintiff as explained by PW1 in her testimony.

Certain important information was missing from the version relied on by the 1st defendant. The point was explained during the re-examination of PW1.

[39] In this context, I cannot accept the contention that the plaintiff are deemed to have given approval for shoes design by the sales reports, which at the most is confined to two reports, namely January 2007 and February 2007, involving not more than ten shoes. In my view, the plaintiff cannot be imputed with knowledge that the 1st defendant was manufacturing and selling unapproved shoes merely from these two reports.

[40] It is also the contention of the defendants that one Aaron Duncan, the VP of design department of plaintiff was aware of the changed process and saw the unapproved shoes being sold by the plaintiff. He came to Malaysia on 17 June 2005, 5 September 2005 and 26 July 2006. It has been established that Aaron Duncan only worked through the online system for approvals. I agree with the submissions of learned counsel for the plaintiff that it is too far fetched for the 1st defendant to claim that by the mere fact of him visiting the defendants' outlets in Malaysia, the plaintiff had thereby waived and varied the approval system prescribed under the License Agreements. In any event there is no evidence to show that Aaron saw the design of the shoes that were not approved when he visited the outlets.

[41] It is also the contention of the defendants that Simon Wong had the apparent authority to approve the design of the plaintiff's licensees. In addressing this issue, it is necessary to consider Simon Wong's role and what he was empowered to do. PW1 in her evidence has explained Simon Wong's role and mandate as follows:

> He was an independent consultant whose primary task was as I said earlier, to provide marketing related consultant services to PEI. In fact the Consultancy agreements consistently provide for this at the very beginning, though the 2003 and 2004 agreements merely state "to provide marketing related services and not, to provide marketing related **consultant** services." The language was merely made clearer as he was providing marketing related **consultant** services.
>
> His activities were limited to coordination, preparation, marketing, and liaison activities. Further, he was specifically not authorized to conclude contracts or accept orders on behalf of PEI.

A Essentially what Simon did was to act as a coordinator between PEI and its licensees in Asia. Though he may have from time to time acted to facilitate issues relating to design approvals and approvals involving the use of PEI's trade marks he did not get involved in the actual approval process and did not make
B decisions about approval as that is clearly not within his scope of his engagement as a consultant. While Simon might offer opinions or recommendations at times, these were precisely that, mere opinions and recommendations from a consultant. PEI was tasked with making final decisions and managing and providing approvals.

C 38. Did Simon have any authority to approve designs of merchandise submitted by licensees within the jurisdictions where he acted as a consultant to PEI?

No. Only the Design Team can only do this.

D **[42]** The reason for Simon Wong's services being terminated has also been explained by PW1 which had to do with the plaintiff as an operator of media and licensing businesses transitioning into a brand management company. As a result it was necessary to outsource certain activities to 3rd party companies.

E **[43]** In my view, the issue whether Simon Wong had authority to approve or there was a change in the approval procedure as alleged by the defendants can be put to rest by his email of 19 January 2007 which were worded as follows:

F I had sent you enclosed pictures before Xmas time. From our approval record, these samples are never submitted to NY for approval. Please confirm these samples are not zillion products. If we do not received your reply within a week. I assume you are confirmed these samples are not zillion products.

G **[44]** This email was sent barely five months before the termination of the 1st defendant as a licensee. Now if the approval procedure was modified as alleged by the 1st defendant, why Simon would want to refer to the fact that the goods were not approved. Simon Wong has also in clear and unequivocal language stated
H under oath that he had no mandate to give approval. This is set out in Simon Wong's affidavit dated 4 August 2008 which was the plaintiff's reply affidavit in resisting the defendants' application to discharge an *ex parte* injunction granted by this court on 1 August 2010 ("Simon's *inter partes* reply affidavit"). Simon's *inter partes*
I reply affidavit has been introduced by the defendants as one of

their documents in Part B of the common bundle of documents. This statement by Simon Wong made under oath makes the position very clear, that all issues relating to design approvals and approvals involving the use of the plaintiff's PB Trade Mark including approvals for listing of advertisements are made directly with the Plaintiff's New York and/or Chicago offices and that he merely facilitates such communication but do not get involved in the decision making or approval process.

[45] Now, under the law of Illinois, a party (the agent) may bind his principal by his words or actions if he has either actual or apparent authority. According to Restatement (Third) of Agency §2.03 (2006). "Apparent authority is the power held by an agent or other actor to affect a principal's legal relations with a third party when a third party reasonably believes the actor has authority to act on behalf of the principal and that belief is traceable to the principal's manifestations." In *Weil, Freiburg & Thomas, P.C. v. Sara Lee Corp.*, 577 N.E. 2d 1344, 1350 (Ill. App. Ct. 1991), "Apparent authority arises when a principal creates, by its words or conduct, the reasonable impression in a third party that the agent has the authority to perform certain acts on its behalf."

[46] Based on authorities cited above, the thing that one should know and clearly understand is that the "belief is traceable to the principal's manifestations" or "when a principal creates, by it words or conduct, the reasonable impression in a third party that the agent has the authority to perform certain acts on its behalf."

[47] It seems to me that the law on apparent authority applicable in Illinois is no different from that applicable in Malaysia. The leading authority which has been applied by the Malaysian courts is the *Freeman & Lockyer v. Buckhurst Park Properties (Mangal) Ltd.* [1964] 2 QB 480 ("*Freeman Case*"). The difference between an actual and an apparent or ostensible authority and the principles applicable thereto are clearly explained by Diplock LJ as follows:

> An "apparent" or "ostensible" authority, on the other hand, is a legal relationship between the principal and the contractor created by a representation, made by the principal to the contractor, intended to be and in fact acted upon by the contractor, that the agent has authority to enter on behalf of the principal into a contract of a kind within the scope of the "apparent" authority, so as to render the principal liable to perform any obligations imposed upon him by such contract.

[48] Our courts have applied the principles enunciated in the *Freeman Case* as in *Chew Hock San & Ors v. Connaught Housing Development Sdn Bhd & Another Case* [1985] 1 CLJ 533; [1985] CLJ (Rep) 64 and *MMC Power Sdn Bhd & Anor v. Abdul Fattah Mogawan & Anor* [2001] 1 CLJ 207.

[49] With the above principles in mind, to prevail on their apparent agency argument, the 1st defendant must established that the plaintiff created a situation where the 1st defendant believed Simon Wong had authority to approve product designs; and that the 1st defendants' belief was reasonable. For "apparent authority" to exist, the agent must not purport to make the agreement as principal himself. Therefore the source of the 'apparent authority' has to be the principal, not the agent. If there is no representation by the principal, there can be no apparent authority conferred on the agent, even if the agent represents the contrary. It is trite law that an agent cannot ordinarily confer ostensible authority on himself. He cannot pull himself up by his own shoe laces (see: *United Bank of Kuwait v. Hammoud* [1988] 1 WLR 1051).

[50] The most glaring weakness of the defendants' contention is that they proceed on the basis that Simon Wong, the so-called agent had in fact held out to have apparent authority. The point to make here is this. The 1st defendant has not established that the plaintiff had ever made any representation or created a situation, which conferred any authority on Simon to give approval of designs.

[51] In conclusion to the issue of 'apparent authority', the 1st defendant has not discharged its burden of showing that the plaintiff (as opposed to Simon Wong) created a situation where the 1st defendant reasonably believed that Simon Wong had the authority to act on behalf of the plaintiff in giving product approval. On the contrary all the evidence relied on by the 1st defendant relates to the acts of Simon Wong. Under Illinois law, the acts of the putative agent are irrelevant to the apparent authority analysis; it is the actions of the putative principal that matter.

[52] On top of that, the 1st defendant has not established its belief that Simon Wong had apparent authority to approve product designs was reasonable. Indeed, the fact that the 1st defendant continued throughout the relationship with the plaintiff to submit products for approval directly using the plaintiff's online approval procedures demonstrates that its belief that Simon Wong had authority to approve designs was not reasonable. In any event, even assuming that Simon Wong had apparent authority to approve product design there is no evidence that in fact he gave any such approvals to the 1st defendant.

[53] There is no doubt that the 1st defendant had used marks which are identical to the PB Trade Marks. The shoes in question were never approved by the plaintiff. Therefore it must inevitably follow that the 1st defendant had infringed the Plaintiff's PB Trade Marks. The 1st defendant is also liable for trademark infringement of all the goods it continued to sell after the termination.

3rd Core Issue: Whether The 2nd Defendant Infringed The Plaintiff's PB Trade Marks

[54] The plaintiff is alleging that the 2nd defendant had infringed the Plaintiff's PB Trade Marks in Malaysia by having sold the alleged infringed products at its respective outlets at One Utama, The Curve, Mid Valley Megamall, Sungei Wang Plaza, Queensbay Mall and Gurney Plaza. The 2nd defendant's case is that the alleged infringed products were in fact approved or licensed by the plaintiff, *albeit* through a changed approval process and/or Simon Wong who had apparent authority.

[55] The 2nd defendant obtained the supply of the shoes in issue from the 1st defendant. Therefore, in so far as the 2nd defendant is concerned, the issue of trademark infringement relating to shoes is dependant upon infringement being found against the 1st defendant, its supplier. Since I have already ruled that the shoes were never approved by the plaintiff, it inevitably follows that the shoes sold by the 2nd defendant bearing the PB Trade Marks are counterfeits. Therefore a case of infringement is also made out against the 2nd defendant.

[56] Therefore, to sum it up, based on all the previously mentioned reasons, I allow the plaintiff claims for trade mark infringement of the Plaintiff's PB Trade Mark by the defendants. I would make an order in terms of the plaintiff's statement of claim, paras. 28(g), (h), (i), (j), (k) and (1). On the other hand, I allow with costs the 1st defendant's counter claim against the plaintiff for a declaration that the termination of the said License Agreements are not valid and an inquiry as to damages related to the invalid termination of the said License Agreements.